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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
AN ARIZONA CORPORATION, FOR
ADJUSTMENTS TO ITS RATES AND
CHARGES FOR UTILITY SERVICE FOR ITS
PARADISE VALLEY WATER DISTRICT.

Docket No. W-01303A-98-0507

**NOTICE OF FILING RUCO'S REPORT ON
ARIZONA-AMERICAN WATER COMPANY, INC.'S
CAP SURCHARGE - PARADISE VALLEY WATER DISTRICT**


The Residential Utility Consumer Office ("RUCO") hereby provides its Report on
Arizona-American Water Company Inc.'s CAP Surcharge for its Paradise Valley Water District.

RESPECTFULLY SUBMITTED this 16th day of June, 2010.


Daniel W. Pozefsky
Chief Counsel

Arizona Corporation Commission
DOCKETED

JUN 16 2010

DOCKETED BY 

1 AN ORIGINAL AND THIRTEEN COPIES
2 of the foregoing filed this 16th day
3 of June, 2010 with:

4 Docket Control
5 Arizona Corporation Commission
6 1200 West Washington
7 Phoenix, Arizona 85007

8 COPIES of the foregoing hand delivered/
9 mailed this 16th day of June, 2010 to:

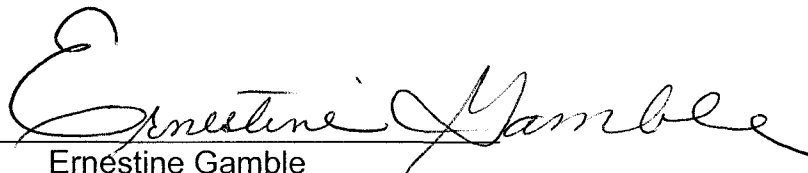
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By


Ernestine Gamble

MEMORANDUM

TO: Jodi Jerich, Director
Dan Pozefsky, Chief Legal Counsel

FROM: William A. Rigsby, Public Utilities Analyst V

RE: **Paradise Valley Water District CAP Surcharge** - Report on RUCO's analysis of the Arizona-American Water Company filing for an increase to its Paradise Valley Water District's CAP Surcharge (Docket No. W-0103A-98-0507)

OBJECTIVE:

The purpose and objective of this analysis was to verify Arizona-American Water Company's ("AAWC" or "Company") Paradise Valley Water District's ("District") Central Arizona Project ("CAP") surcharge calculation for 2010.

BACKGROUND:

Decision No. 61831, dated July 20, 1999 established an adjustor mechanism which allows the District to recover its ongoing CAP costs through a surcharge that is subject to an annual true-up.

The surcharge applies to all customers of the District with the exception of sales for resale customers. For residential customers the surcharge is calculated on a per 1,000 gallon basis in excess of 45,000 gallons of consumption and all levels of consumption for non-residential customers.

In accordance with Decision No. 61831, both ACC Staff and RUCO are responsible for the review and approval of any proposed surcharge changes or true-ups.

COMPANY FILING:

On March 9, 2010, AAWC filed the tariff and schedules for the District's proposed CAP surcharge increase. The Company requested that the existing surcharge of \$0.2009 per 1,000 gallons, effective February 1, 2006, be increased to \$0.4660 per 1,000 gallons. The Company-proposed surcharge rate of \$0.4660 per 1,000 gallons consisted of a surcharge of \$0.2036 per 1,000 gallons, to recover the under collection of surcharges for the years 2006 through 2009 (to be in effect for three years starting April 1, 2010), plus a surcharge of \$0.2624 per 1,000 gallons to recover the Company's current capital and delivery charges.

COMPANY FILING (Cont.):

On April 30, 2010, ACC Staff filed a memorandum that took issue with AAWC's assertion that Decision No. 68858, dated July 28, 2006, authorized the inclusion of power cost savings, reimbursed by Motorola, from the surcharge calculation to the company's base rates. ACC Staff also took issue with the inclusion of fees associated with recharging the Company's CAP allocation at the Tonopah Desert Recharge Project which is owned by the Central Arizona Water Conservation District' ("CAGRD") per Decision No. 71410, dated December 8, 2009. The Tonopah Desert Recharge Project fees replaced prior Salt River Project ("SRP") fees for water that was being pumped from a contaminated SRP well (the PCX-1 well) that the District stopped using.

On May 28, 2010, AAWC filed tariff and schedules for a revised CAP surcharge of \$0.2441. The revised surcharge rate of \$0.2441 per 1,000 gallons consisted of a surcharge of \$0.0872 per 1,000 gallons, to recover the under collection of surcharges for the years 2006 through 2009 (to be in effect for three years starting April 1, 2010), plus a surcharge of \$0.1570 per 1,000 gallons to recover the Company's current capital and delivery charges.

In the May 28, 2010 filing, the Company stated that AAWC had accepted ACC Staff's position that Decision No. 68858 did not authorize the inclusion of power cost savings, reimbursed by Motorola, from the surcharge calculation to the company's base rates. However, the Company disagreed with ACC Staff's interpretation of Decision No. 71410 and continued to include fees associated with the Tonopah Desert Recharge Project in place of prior SRP charges – a point on which the ACC Staff eventually agreed with the Company.

ANALYSIS:

A review of AAWC's May 28, 2010 revised filing did not reveal any problems with the Company's calculation of the proposed CAP Surcharge and comports with the intended provisions of Decision No. 71410.

COMMENTS ON AAWC's FILING:

RUCO's review of AAWC's CAP surcharge raises an issue that is not related to the actual calculation of the surcharge but needs to be addressed. Of chief concern are the Company's delays in filing for annual adjustments, which have resulted in the inclusion of under collected surcharges for the years 2006 through 2009 in the current surcharge amount. The fact that the Company did not file over this time period makes for a strong argument against adjustor mechanisms such as the Paradise Valley Water District CAP Surcharge. This is consistent with RUCO's prior positions on requested adjustor mechanisms and RUCO's

COMMENTS ON AAWC's FILING (Cont.)

belief that costs such as the ones being recovered in this particular case should be recovered in base rates.

ACC STAFF'S PROPOSED ORDER:

On Tuesday, June 15, 2010, ACC Staff filed a proposed order on AAWC's requested CAP Surcharge increase. RUCO has reviewed ACC Staff's proposed order and is in agreement with the recommendations contained in it.

RECOMMENDATIONS:

RUCO agrees with the Company's calculation of the Paradise Valley Water District CAP Surcharge. RUCO also recommends that the Commission approve the revised Company-proposed surcharge of \$0.2441 per 1,000 gallons. RUCO further believes that the Commission should adopt all of the recommendations contained in ACC Staff's proposed order.